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INTRODUCTION

The Office of Internal Audit performed an audit of Bay County FIA for the period January 1 through December 31, 2002. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Bay County FIA had 100 full time equated positions (FTE's) at the time of our review. Bay County FIA provided assistance to an average of 13,065 recipients per month during FY 2002, with total assistance payments of \$16,829,139 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Bay County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing

Cash Disbursements

IRS Information Security

Safe and Controlled Documents

Modified Accrual Balance Sheet

Procurement Card

CIS/ASSIST/LASR Controls

Cash Receipts

General Ledger

State Emergency Relief (SER)

Payroll and Timekeeping

Direct Support Services

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Bay County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Bay County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated May 21, 2003 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Open Items on the Record and Disposition of Checks/Warrants (FIA-61)

1. Bay County FIA did not reconcile the FIA-61 weekly, and did not always record the disposition of returned EBT cards on the FIA-61, as required by Accounting Manual Item 462. We found two open items on the FIA-61 for returned EBT cards that were no longer on hand. We also found a returned warrant still on hand that was dated December 2, 2002. The worker had not returned the FIA-138 (Action Taken on State Treasurer's Warrants by Local Office) for disposition of the item. Accounting Manual Item 462, page 1, requires workers to respond regarding disposition of warrants returned to the local office within 10 working days of notification from the fiscal office. Warrants should be voided after 10 days if the worker has not responded with an appropriate disposition. Recording disposition of all items on the FIA-61 and reconciling the FIA-61 weekly provides documentation that returned checks/warrants and EBT cards were disposed of properly.

WE RECOMMEND that Bay County FIA record the disposition of all checks/warrants/EBT cards on the FIA-61, and reconcile the FIA-61 weekly.

WE ALSO RECOMMEND that Bay County FIA determine the disposition of the three open items on the FIA-61, and take the appropriate corrective action.

Cash Disbursements

Recording the Check Signing Machine Counter

2. Bay County FIA did not record the beginning and ending numbers from the check signing machine on the Sign-O-Meter Log (FIA-4711) each day as required by Accounting Manual Item 410.1. Recording the beginning and ending numbers helps to ensure that all checks signed are properly accounted for each day.

WE RECOMMEND that Bay County FIA record the check signing machine counter readings on the FIA-4711 each day.

NOTE: Corrective action was taken while the auditor was on-site.

Signature Card at the Bank

3. Bay County FIA did not have the current authorized check signers on the signature card on file with the bank. Accounting Manual Item 410.1 states that if the check signing machine malfunctions, back up procedures, including two or three authorized signatures on file with the bank, should be in place.

WE RECOMMEND that Bay County FIA update the signature card on file at the bank.

NOTE: Corrective action was taken while the auditor was on-site.

General Ledger

Cash Reserve File

4. Bay County FIA did not maintain a Cash Reserve File as required by Accounting Manual Item 402.6. Maintaining a file with documentation for establishment and transactions affecting Cash Reserve will ensure that the cash reserve is appropriately documented and accounted for.

WE RECOMMEND that Bay County FIA establish and maintain a Cash Reserve file.

IRS Security

Knowledge of IRS Security Procedures

5. The Bay County FIA mailroom staff were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Bay County FIA familiarize the mailroom staff with all aspects of the confidentiality laws for information received from the IRS.

NOTE: Corrective action was taken while the auditor was on-site.

Safe and Controlled Documents

Controlled Document Log

6. Bay County FIA did not properly control blank documents. We noted that the local office was not using the Controlled Document Log (FIA-4070) for Blank Voucher Checks (FIA-1802), Purchase Order/Invoices (FIA-2083), EBT Cards, Official Cashier's Receipts (FIA-3681), Bus Tickets, Gift Certificates, and Authorization Invoices (FIA-849), as required by Accounting Manual Item 403. Use of the Controlled Document Log will help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Bay County FIA use the Controlled Document Log for all controlled documents.

NOTE: Corrective action was taken while the auditor was on-site.

Security of Accounting Area

7. Bay County FIA has a split door that goes from accounting to the reception area. The top half of the door is kept open during business hours, which would allow anyone to reach in and open the bottom half to gain access. According to the Primary Internal Control Criteria for Local Offices the physical design of the accounting area should have floor to ceiling walls with locked doors that provide a controlled physical barrier to access.

WE RECOMMEND that Bay County FIA restrict the access from reception to accounting at all times.

Payroll and Timekeeping

Storage of Time and Attendance Summary Report (HR-332A)

8. At Bay County FIA, the timekeeper kept the HR-332A report after the director signed it. The Primary Internal Control Criteria for Local/District Office Operations recommends that an employee other than the timekeeper maintain the certified copies of the HR-332A Report until the reconciliation with the Turnaround HR-332A is completed, so that any unauthorized changes the timekeeper made after the HR-332A is certified would be detected.

WE RECOMMEND that Bay County FIA have an employee other than the timekeeper maintain the certified copies of the HR-332A report until the reconciliation is completed.

Reconciliation of HR-332A to the Turnaround HR-332A

9. Bay County FIA did not reconcile the turnaround HR-332A to the original HR-332A report a week after the time was submitted. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the turnaround HR-332A to attest to the accuracy of the payroll.

WE RECOMMEND that Bay County FIA have someone other than the timekeeper reconcile the original HR-332A report to the turnaround HR-332A report to verify the accuracy of the payroll.

Direct Support Services

Documentation for Vehicle Repair

10. Bay County FIA did not document in the case file that the client owned the vehicle that was being repaired for three of the 10 cases we reviewed. Program Eligibility Manual (PEM) Item 232, page 10, requires that the worker obtain verification of vehicle ownership before authorizing repairs.

WE RECOMMEND Bay County FIA obtain documentation that vehicles are owned by the client prior to authorizing vehicle repairs.

SER Payments

No findings in this area

Procurement Card Usage

No findings in this area

CIS/ASSIST/LASR Controls

No findings in this area

Client Processing

No findings in this area

Modified Accrual Basis Balance Sheet

No findings in this area